



Health Services

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September 25, 2007

TO: Each Supervisor

FROM: Bruce A. Chernof, M.D.
Director and Chief Medical Officer

SUBJECT: **DEPARTMENT OF HEALTH SERVICES FISCAL
OUTLOOK UPDATE**

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through leadership,
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Attached for your information is a Summary of Changes in the Department of Health Services (DHS) Fiscal Outlook (Attachments A1-A2) since our last report on June 18, 2007.

As indicated in the summary of changes (Attachment A2) the Fiscal Year (FY) 2006-07 year-end balance in the Department's designation fund is \$135.3 million, a decline from the \$277.8 million per our last update. For FY 2007-08, we are estimating a balanced budget through the Supplemental Budget Resolution (see line 20 column 2 on Attachment A1). The cumulative funding shortfall through FY 2010-11 including the remaining proposed Deficit Management Plan Actions that are not included in the supplemental budget, is now estimated at \$(1,130.8) million, (line 29 on Attachment A2), an increase in the deficit from the \$(625.6) million per our last update. This is mainly due to revised estimates for the Managed Care Rate Supplement to reflect changes due to a State calculation error.

With respect to the estimated funding shortfall of \$(265.3) million for FY 2008-09, the Department is working with the Chief Executive Office (CEO) to develop a balanced proposed DHS budget for FY 2008-09. During this time will also begin laying the groundwork to develop approaches for addressing the much larger cumulative future fiscal year projected shortfalls.

Medi-Cal Redesign

California is currently in year 3 of the 5-year statewide hospital financing waiver. The State of California has not yet finalized year 1 of the waiver. We are expecting in the next 8 to 10 weeks to receive revised numbers from the State. We do not expect to have final numbers until February 2008. The revised numbers could have a material impact on our current forecast.



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Managed Care Rate Supplement

The Managed Care Rate Supplement is still pending Federal approval. We have responded to all of the questions from Centers for Medicare and Medicaid Services (CMS) and are expecting for CMS to comeback with a response no later than November 10, 2007.

The Department has revised the estimates for the Managed Care Rate Supplement to reflect changes due to a State calculation error. The cumulative effect of the changes is a reduction in revenues of \$505.1 million (Attachment A1 line 5 \$(856.6) million and line 6 \$351.5 million). As discussed above the cumulative funding shortfall increase from \$(625.6) million to \$(1,130.8) million, an increase in the deficit of \$505.2 million, primarily due to the changes in the Managed Care Rate Supplement updated estimates.

Mental Health Services

DHS and DMH have been working together to reach a mutual resolution for the provision of psychiatric services to the residents of Los Angeles County. To date, both Departments have agreed in concept to the following psychiatric service program change:

LAC+USC Psychiatric Outpatient Clinic – Effective November 1, 2007, LAC+USC will transfer the operation of the psychiatric outpatient clinic to DMH. DMH will retain approximately \$1.3 million of the Interagency Agreement funds to operate the outpatient program. The DHS savings for FY 2007-08 is expected to be \$0.8 million for eight months. Estimated ongoing annual DHS savings are approximately \$1.2 million.

DHS and DMH are continuing to discuss the psychiatric emergency rooms, inpatient services, and urgent care centers.

Healthcare Reform

Los Angeles County is willing to help fund the reform by participating in the provider fee proposal and the County share of cost mechanism providing the new law gives us the tools we need to restructure our system during the transition to a new era of healthcare delivery. The private sector will still rely on us to offer trauma, ER and complex specialty services. Without our system, there will not be adequate capacity to treat the uninsured and the newly insured.

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Pending Rule Disallowing Use of Interns & Residents Costs for Certified Public Expenditures (CPE)

CMS is proposing to eliminate Medi-Cal payments for interns and residents in hospitals that train physicians. The earliest that CMS can implement this rule is FY 2008-09 because of the one-year moratorium provision that is currently in effect until May 26, 2008. We are estimating the annual cost to the Department to be approximately \$30.0 million. We are currently working with CAPH and NAPH to extend the moratorium beyond May 26, 2008.

If you have any questions or need additional information, please let me know.

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FISCAL OUTLOOK92507
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Attachments

c: Chief Executive Officer
County Counsel
Executive Officer, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

JUNE 18, 2007 THROUGH SEPTEMBER 25, 2007

ATTACHMENT A1

	Fiscal Year / Columns / \$ in Millions					
	06-07 / (1)	07-08 / (2)	08-09 / (3)	09-10 / (4)	10-11 / (5)	Total / (6)
(1) Estimated Cumulative Year-End Fund Balances (Shortfalls) - 6/18/07 ^(A)	\$ 277.8	\$ 120.0	\$ (119.6)	\$ (374.7)	\$ (688.7)	\$ (688.7)
<u>MetroCare</u>						
(2) Add 52 beds at Rancho and 20 beds at Harbor/UCLA from August 15, 2007 through February 14, 2009 per the MetroCare contingency plan implemented on August 10, 2007 due to CMS decertification. Amounts partially offset with cost reductions at MLK-Harbor. ^(B)	-	(8.9)	(6.5)	-	-	(15.4)
(3) Add funding for private hospital bed contracts from August 15, 2007 through February 14, 2009 per the MetroCare contingency plan implemented on August 10, 2007 due to CMS decertification. ^(B)	-	(11.4)	(8.2)	-	-	(19.6)
(4) Adjust funding for 21 beds previously added at Harbor/UCLA per the MetroCare implementation plan per the Supplemental Budget Resolution for September 25, 2007.	-	(7.7)	(7.9)	(8.1)	(8.4)	(32.1)
<u>Managed Care Rate Supplement ^(B)</u>						
(5) Reverse the Managed Care Rate Supplement estimates included in Line (1) above.	(143.0)	(178.4)	(178.4)	(178.4)	(178.4)	(856.6)
(6) Add revised Managed Care Rate Supplement estimates per the State's correction of calculation errors received in July 2007. Note, FY 07-08 includes \$55.5 million for FY 08-07 and \$74.0 million for FY 07-08.	-	129.5	74.0	74.0	74.0	351.5
(7) Add back unused County Contribution related to the reduced Managed Care Rate Supplement (GT per the estimates on Line (6) above). ^(C)	-	32.2	13.0	13.0	13.0	71.2
(8) Redirect the use of Tobacco Settlement funding to offset the reduced Managed Care Rate Supplement estimates on Line (6) above. ^(D)	-	39.2	-	-	-	39.2
<u>Other Adjustments Included in the Supplemental Budget Resolution (SBR)</u>						
(9) Reflect the loss of 340B pharmacy pricing eligibility at the DHS Comprehensive Health Centers and Health Centers per the Supplemental Budget Resolution for September 25, 2007.	-	(20.6)	(22.2)	(24.0)	(25.9)	(92.7)
(10) Reduce Vehicle License Fees estimates per the CEO on September 4, 2007.	(8.2)	(10.9)	(12.7)	(14.9)	(17.1)	(63.8)
(11) Offset FY 07-08 reduction in Vehicle License Fees with Tobacco Settlement funds per the Supplemental Budget Resolution for September 25, 2007.	-	10.9	-	-	-	10.9
(12) Include estimated Medi-Cal Redesign revenue related to the Physician SPA per negotiations with CMS in August 2007. Note, FY 07-08 includes estimates for FY's 05-06, 06-07 and 07-08.	-	30.7	9.4	9.6	9.9	59.6
(13) Adjust Medicare revenue based on estimates developed in August 2007.	-	(5.6)	(6.6)	(7.2)	(7.7)	(27.1)
(14) Adjust Medi-Cal Redesign revenue based on estimates developed in September 2007.	-	25.4	-	-	-	25.4
(15) Adjust the estimated salary COLA per the salary base included in the Supplemental Budget Resolution for September 25, 2007.	-	-	2.7	5.4	11.0	19.1
(16) Adjust the net savings related to the closure/transfer of Rancho in FY 2009-10 based on estimates developed in September 2007.	-	-	-	(10.8)	(5.7)	(16.5)
(17) Adjust Sales Tax revenue estimates per the Auditor-Controller in August 2007.	4.5	-	-	-	-	4.5
(18) Various other changes per the final FY 06-07 final experience and budget adjustments included in the Supplemental Budget Resolution for September 25, 2007.	4.2	(1.6)	(0.9)	0.2	2.7	4.6
(19) Forecast Improvement (reduction) roll-forward	-	(142.5) ^(E)	(119.7) ^(E)	(264.0) ^(E)	(405.2) ^(E)	-
(20) Revised Estimated Cumulative Year-End Fund Balances (Shortfalls) - per the SBR ^(A)	\$ 135.3	\$ 0.3	\$ (383.6)	\$ (779.9)	\$ (1,226.5)	\$ (1,226.5)
<u>Developments Subsequent to the SBR</u>						
(21) Reflect net cost and revenue changes related to the conversion of MLK-H Hospital to a MACC from August 15, 2007 through February 14, 2009 per the MetroCare contingency plan implemented on August 10, 2007 due to CMS decertification; and the subsequent reopening of the hospital on February 15, 2009.	-	(43.8)	(1.5)	(52.9) ^(F)	(11.2)	(109.4)
(22) Add creation of the South Los Angeles Medical Services Preservation Fund.	-	83.3 ^(F)	59.6 ^(F)	-	-	142.9
(23) Forecast Improvement (reduction) roll-forward	-	-	39.5 ^(F)	97.6 ^(F)	44.7 ^(F)	-
(24) Adjusted Estimated Cumulative Year-End Fund Balances (Shortfalls) - 9/25/07 ^(A)	\$ 135.3	\$ 39.8	\$ (286.0)	\$ (735.2)	\$ (1,193.0)	\$ (1,193.0)

Note: The Medi-Cal Redesign estimates included in the above estimates are subject to material adjustment during FY 07-08 due to the Statewide efforts to finalize data and estimates for FY 05-06 (the first year of the Waiver).

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK

JUNE 18, 2007 THROUGH SEPTEMBER 25, 2007

	Fiscal Year / Columns / \$ In Millions					
	06-07 / (1)	07-08 / (2)	08-09 / (3)	09-10 / (4)	10-11 / (5)	Total / (6)
(25) Adjusted Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 9/25/07 ^(A) (cont.)	\$ 135.3	\$ 39.8	\$ (286.0)	\$ (735.2)	\$ (1,193.0)	\$ (1,193.0)
<u>Proposed/Potential Deficit Management Plan Actions (Not Included in the SBR)</u>						
(26) Mental Health - IP services and psych ER's ^(F)	-	-	18.7	19.3	19.8	57.8
(27) Transfer of LAC+USC Psychiatric Outpatient Clinic to DMH, expected effective 11/1/07	-	0.8	1.2	1.2	1.2	4.4
(28) Forecast improvement/(reduction) roll-forward	-	-	0.8 ^(E)	20.7 ^(E)	41.2 ^(E)	-
(29) Adjusted Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 9/25/07 ^(A) if all remaining actions are successful	\$ 135.3	\$ 40.6	\$ (265.3)	\$ (694.0)	\$ (1,130.8)	\$ (1,130.8)
<u>Other Potential Items</u>						
(30) Pending Federal rule limiting Medicaid reimbursement to public hospitals to Medicaid cost ^(G)	-	-	-	-	(228.0)	(228.0)
(31) Pending Managed Care Rate Supplement rule limiting public hospitals to managed care costs	-	-	?	?	?	?
(32) Pending rule disallowing use of Interns & Residents costs for Certified Public Expenditures	-	-	(30.0)	(30.0)	(30.0)	(90.0)
(33) Forecast improvement/(reduction) roll-forward	-	-	-	(30.0) ^(E)	(60.0) ^(E)	-
(34) Adjusted Estimated Cumulative Year-End Fund Balances/(Shortfalls) - 9/25/07 ^(A) if all remaining actions are successful and pending Federal rule adopted	\$ 135.3	\$ 40.6	\$ (295.3)	\$ (754.0)	\$ (1,448.8)	\$ (1,448.8)

Notes

- (A) - Assumes CBRC will be extended for each year beyond FY 04-05. CBRC extension for LA County's outpatient and clinic care was included in the FY 05-06 and FY 06-07 Adopted State Budgets. A Medi-Cal State Plan Amendment to extend the program is currently pending CMS approval. FY 10-11 assumes Medi-Cal Redesign 1115 Waiver extension and continuance of its Coverage Initiative component.
- (B) After these changes, the total amount of the managed care rate supplement is \$351.5M for FY 06-07 and \$74.0M per year for FY's 07-08 through 10-11 and is subject to State/Federal approval.
- (C) Reflects the difference between funding available in the County general fund available for use by DHS for the Managed Care Rate Supplement IGT. For FY 06-07, \$47.0M is available for use, of which \$27.8M will be used to fund the FY 06-07 IGT, leaving \$19.2M. For FY's 07-08 through 10-11, \$50.0M is available with \$37.0M identified for the IGT in each fiscal year, which leaves \$13.0M per fiscal year available for DHS use. The FY 07-08 amount reflects the \$19.2M from FY 06-07 and the \$13.0M from FY 07-08.
- (D) Reflects Tobacco Settlement funding that was made available to DHS to backfill the loss of State funding in the Managed Care Rate Supplement. It was estimated for FY's 07-08 through 10-11, that \$39.2M in Tobacco Settlement funds would be used to backfill the State funding loss. This adjustment proposes the use of those funds to offset the reduced Managed Care Rate Supplement revenue.
- (E) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the (\$142.5) million in FY 07-08 is \$135.3 million - \$277.8 million from FY 06-07.
- (F) Includes savings due to the restructuring of inpatient psych services and the psych emergency rooms. Amounts are based on FY 07-08 and increased by a 3% COLA in FY's 08-09 through 10-11. Savings amount subject to change depending on the outcome of negotiations with DMH.
- (G) Amount reflects the impact of reduced Safety Net Care Pool funds due to limited availability under the pending Federal rule.
- (H) Assumes that MLK-Harbor MACC is converted back to a 120 bed (108 ADC) hospital on February 15, 2009.
- (I) Amount represents \$100 million per year on an annual basis. Since MLK-H was still operating as a hospital from July 1, 2007 through August 15, 2007, the amount from the fund is prorated over 10.5 months.
- (J) Amount is negative primarily due to the fact that while the hospital is expected to be running at 120 beds in FY 09-10, the Medi-Cal Redesign revenue will lag one year and the full amount of the revenue will not be realized until FY 10-11. This is per current law and DHS will work to update the law to allow for the revenue to be received at the correct time.